

**LEGISLATIVE SERVICES AGENCY**  
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**FISCAL IMPACT STATEMENT**

**LS 6416**  
**BILL NUMBER:** HB 1078

**NOTE PREPARED:** Dec 30, 2014  
**BILL AMENDED:**

**SUBJECT:** Income Tax Deduction For Military Income.

**FIRST AUTHOR:** Rep. Macer  
**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** X **GENERAL**  
**DEDICATED**  
**FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** The bill increases the income tax deduction for military income (including military retirement income) from \$5,000 to \$10,000.

**Effective Date:** January 1, 2016.

**Explanation of State Expenditures:** *Department of State Revenue (DOR):* The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to reflect the changes to the military income deduction. The DOR's current level of resources should be sufficient to implement these changes.

**Explanation of State Revenues:** The bill increases the maximum deduction for military pension or survivor's benefits and military service pay. The revenue impact of these changes would begin in FY 2017. The estimated revenue loss for FY 2017 and FY 2018 is summarized in the table below. The revenue loss could potentially grow by 3% to 5% annually thereafter.

Type of Military Income	FY 2017 Revenue Loss (in millions)	FY 2018 Revenue Loss (in millions)
Military Pension (Retirees 60 years old or older)	\$2.3	\$2.2
Survivor's Benefit (Survivors 60 years old or older)	0.4	0.4
Full-Time Active Duty Pay	2.5	2.4
Armed Forces Reserve/National Guard Regular Pay	3.2	3.1
<b>Total</b>	<b>\$8.4</b>	<b>\$8.1</b>

Additional Information - The bill does the following:

(1) It increases the individual AGI deduction for military pension and survivor's benefits from a maximum of \$5,000 to \$10,000 beginning 2016.

(2) It increases the individual AGI deduction for military service pay earned by individuals who are members of an active or reserve component of the U.S. armed forces. The deduction would be increased from a maximum of \$5,000 to \$10,000 beginning in 2016.

The estimates are based on pay and benefit information and personnel, retiree, and survivors counts from 2005 to 2014 from the U.S. Department of Defense (DOD), Defense Manpower Data Center (DMDC). These data provide: (1) counts of active duty, Armed Forces Reserve, and National Guard personnel reporting Indiana as their state of legal residence and annualized taxable pay to those individuals; and (2) counts of military retirees and survivors reporting Indiana as their state of legal residence and monthly annuity payments to those individuals.

The estimates assume that active duty, Armed Forces Reserve, and National Guard personnel and military retirees and survivors who are 60 years old or older are already claiming the current military income deduction of up to \$5,000. It also accounts for Armed Forces Reserve and National Guard personnel who claim the current full deduction for active duty pay they may earn. The estimate does not include active duty personnel reported with an Indiana duty location who are not Indiana residents.

In 2014, the DMDC reported pay and benefit amounts for 17,176 full-time active duty personnel, 18,978 Armed Forces Reserve and National Guard personnel, 22,982 military retirees, and 4,095 survivors who reported that Indiana was their state of legal residence. The active duty pay is estimated to have totaled \$500.5 M in 2014, while pay to Armed Forces Reserve and National Guard personnel is estimated to have totaled \$271.8 M for the year. The total annuity payments in 2014 to military retirees is estimated to have totaled \$493.6 M, with the total paid to survivors estimated at \$45.7 M for the year. In tax year 2012 (the most recent tax return data available), 2,007 members of the Armed Forces Reserve and National Guard claimed deductions for active duty pay totaling about \$50.4 M.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Because the increase in the deduction will decrease taxable income, counties imposing local option income taxes could potentially experience a decrease in revenue from these taxes. Based on the current average LOIT rate of 1.45%, the revenue loss due to the increased deduction could total \$3.7 M in FY 2017 and FY 2018.

**State Agencies Affected:** Department of State Revenue.

**Local Agencies Affected:** Counties with local option income taxes.

**Information Sources:** U.S. Department of Defense, Defense Manpower Data Center. OFMA income tax return databases.

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